



## International Journal of Applied Business and Economic Research

ISSN: 0972-7302

available at <http://www.serialsjournal.com>

© Serials Publications Pvt. Ltd.

Volume 15 • Number 11 • 2017

### Trajectories of Management and Competitiveness Increase in Hospitality Industry

Elena N. Klochko<sup>1</sup>, Viktoriya D. Vetrova<sup>2</sup>, Igor N. Molchanov<sup>3,4</sup>, Irina V. Ogarkova<sup>5</sup>, Galina N. Rykun<sup>6</sup> and Elena A. Vermenskaya<sup>7</sup>

<sup>1</sup>Kuban State Technological University, Krasnodar, Russia

<sup>2</sup>Moscow State University of Food Production, Moscow, Russia

<sup>3</sup>Lomonosov Moscow State University, Moscow, Russia. Email: [magadan.79@mail.ru](mailto:magadan.79@mail.ru)

<sup>4</sup>Financial University under the Government of the Russian Federation, Moscow, Russia

<sup>5-7</sup>Institute of Service, Tourism and Design (branch) North-Caucasus Federal University, Pyatigorsk, Russia

#### ABSTRACT

The orientation of hotel enterprises towards commercial success stipulates the need to increase competitiveness of the offered services, which requires an improvement of all work practices of hotel departments. Competitiveness is an important factor that ensures the financial security of the hotel (its survival prospects during financial and economic crises and falling demand) and its subsequent effective development. A comprehensive approach to the competitiveness management of the hotel can become an effective tool for resolving strategic tasks of increasing competitiveness. The purpose of designing a model of hotel competitiveness is the correct definition of competitive strategy, which would be consistent with the conditions of hospitality business, as well as the skills and capital possessed by a specific hotel. The main goal of each hotel is its commercial prosperity, and it determines a need to enhance the competitiveness level of its services. This consolidates the importance of developing and improving the work of all hotel departments. The analysis of the various definitions of the term “competitiveness” applied to goods or services enabled us to formulate the following definition:

The competitiveness of hotel service is its ability to meet the needs of customers effectively, surpassing competitors in consumer characteristics of services and offering services at the lowest cost, which ensures commercial success of enterprises in the hospitality industry.

**JEL Classification:** L21, L26, L83, M31.

**Keywords:** Management, hotel business, competitiveness, commercial success.

## **1. INTRODUCTION**

The theoretical issues connected with the problems of competitiveness management were dealt with in the works of the following Russian and foreign researchers.

A comprehensive study of a large number of definitions of competitiveness of a service or product makes it possible to characterize competitiveness of hospitality services. It is the ability to meet the needs of customers effectively, surpassing competitors in consumer characteristics of services and offering services at the lowest cost, which ensures commercial success of enterprises in the hospitality industry.

The methodological base of the research are the works of Russian and foreign researches in the sphere of hotel and tourism industry in general, and academic resources of RuNet (Russian Network).

The hypothesis of our research is the assumption that implementation of an array of actions aimed at increasing competitiveness of an enterprise in the hotel industry will improve the efficiency of its business operations and increase its attractiveness to customers.

## **2. SUBJECT MATTER, KEY FEATURES AND COMPETITIVE FACTORS IN THE HOSPITALITY INDUSTRY**

Nowadays the competitiveness of an enterprise is a relative characteristic that expresses the developmental differences between a firm and its competitors in the degree to which it satisfies customers' needs and in their efficiency (Kvartalnov, 2009).

Competitors can influence greatly an enterprise and its choice of the market in which it functions. For this reason, it should be noted that competition could be of three types.

### **Three Types of Competition**

Functional competition appears because any need in general can be satisfied in various ways. Accordingly, all services that provide such satisfaction are functional competitors. Functional competition has to be taken into account even if the company offers a truly unique product or service.

Aspectual competition is the result of having services satisfying the same need, but differing in some important aspect.

Objective competition arises from providing identical services by several enterprises, differing only in their quality. Such competition is sometimes called the inter-company. In some cases, it is correct. However, it should be borne in mind that the two other forms of competition are usually also inter-company.

Economics divides competition into price-related and non-price competition, i.e. into competition based on price and competition based on the quality (consumer value of goods or services), respectively (Brymer, 2008).

Price-related competition dates back to the days of free market competition, when even similar goods were offered at very different prices in the market. Reduction of the price was the principle by which an industrialist (merchant) singled out his goods, drew customers' attention to them and, ultimately, won the desired market share.

When markets are monopolized, enterprises aim to keep prices unchanged for as long as possible to provide income increase (maximize) profits by reducing the costs and expenses on marketing. In these markets prices lose their elasticity. This does not mean, of course, that in today's market there are no "price wars". In the open form, it is only possible when the company exhausts all possible reserves to reduce the cost of goods.

Price competition is mainly used by enterprises-outsiders in their fight against monopolies, for which outsiders have neither strength nor opportunities to compete in the sphere of non-price competition. Moreover, pricing methods are used by new businesses to penetrate into the markets, and to strengthen their existing position in the case of flare marketing problems.

Non-price competition focuses on higher reliability, smaller "consumption cost", more modern design, etc. The non-price methods also include providing a large range of services, as well as other similar improved consumer properties that in the last decade have taken the leading place in the list of non-price factors (Babanchikova, 2010).

### **Parameters and Factors of Competitiveness of Hotel Businesses**

The main parameters, along which the competitiveness of a hotel business can be assessed, include:

- the efficiency of the hotel in the market;
- offering more attractive services and products compared to competitors;
- successful market results enabling long-term development.

Various factors can have influence on the competitiveness of a hotel business. These factors determine its ability to act in the current political, financial and economic conditions and can be divided into:

1. *Tactical*: The tactical factor of competitive advantages of a hotel is a specific component of the external or internal environment of the enterprise, which determines its present or near future (less than one year) superiority over competitors.
2. *Strategic*: The strategic factor of competitive advantages is a specific component of the external or internal environment of the enterprise, by which it surpasses competing companies after the fulfillment of specific conditions that determine the superiority of the analyzed component of the hotel in the future (Kosvintseva, 2009).

The competitiveness of the hotel is a relative term: the same hotel can be considered competitive in the regional group of hotels, while it will not be competitive in the framework of the global market sectors or segments.

Analysis of factors affecting the competitiveness of hotels requires identification of the strengths and weaknesses of the competitors, and their distinctive features.

Such analysis allows hotels to identify their own competitive advantages, related to their tangible and intangible resources.

The first ones include the capital and financial assets of the hotel reflected in the balance sheet. The second ones (intangible assets) imply quality characteristics of the hotel, namely:

- intangible resources which are not associated with people (trademark, image, prestige);

- intangible human resources (staff qualification and competence, experience, strong management team, corporate culture).

In addition, the source of competitive advantage might be the strategic directions in the activity of enterprises (planning, sales, marketing, finance, etc.), in which they excel. The hotel can also occupy a leading position if it monopolizes the market. Due to this, large enterprises of the hospitality industry try to capture the market, taking advantage of globalization and integration of companies.

### **Unique Assets of Competitive Advantage of Enterprises in the Hospitality Industry**

The basis for competitive advantage is the unique assets of the hospitality organization or special competence in important areas of the hotel business. The realization of competitive advantage is the basis of the business strategy of a hotel.

The business strategy of the hotel is the organization's strategy in a specific market, which focuses on improving the competitive position of hotel products and services. Owing to the competitive advantages, an organization can have an above-average profitability for this field of activity or for a certain market segment (Porter, 2010).

In the historical aspect, the theory of competitive advantages replaced the theory of comparative advantages. Underlying the organization's competitiveness comparative advantages are defined by existence and use of such factors as capital, labor, infrastructure, etc. However, because of the deep innovation processes and globalization of the hotel industry, the theory of comparative advantage has undergone significant changes and additions, namely:

- advantages ceased to be strategic, they are changing under the influence of the innovation process (transformation of service technologies, management techniques, marketing techniques, etc.), and therefore there is a need to have constant innovation to retain competitive advantage. The innovations must be implemented earlier or at the same time as in the enterprises-competitors;
- the globalization of business requires that companies took into account national and international interests;
- countries and regions are not only places where business organizations act, but also the basis for developing their strategies (Volkov, 2010).

The potential of a hotel depends essentially on the conditions of its functioning, and it is subject to constant change. During the formation of the competitive advantages of the hotel, it is advisable to be guided by the needs of customers and to continually question consumers on whether they perceive the characteristics of the hotel or its services as advantageous in comparison with other actors in the hospitality market. B. Karlof notes that, unfortunately, it is easy to declare having a number of competitive advantages, not actually checking how they meet customers' needs (Karlof, 2009).

Consistency is not characteristic for competitive advantages, it is important to gain and retain them, improving constantly all areas of activity, which is rather time-consuming and expensive. Retention of competitive advantages depends on several factors:

The sources of competitive advantages associated with having a high reputation, qualified staff, advanced marketing, the use of modern technology and management practices, etc.;

The obvious sources of competitive advantages (for instance, reliance on a particular supplier of goods and services). If the company has obvious sources of competitive advantage, the likelihood of competitors' attacks on them increases;

Innovation. In order to retain the leading position in the market, the enterprise should innovate faster than competitors or to be equal to them;

The rejection of the existing competitive advantages to purchase new ones, that is essential to implement an appropriate strategy (Shkurkin, Sogacheva, Logvencheva, & Khramova, 2016).

In order to be competitive, hospitality enterprises need to have a few (4-5) competitive advantages. Nowadays there is a wide range of activities that allow to achieve competitive advantages (Table 1) (Babanchikova, 2010; Kobersy et. al., 2016).

**Table 1**  
**Strategies used to achieve competitive advantages**

<i>Strategy Name</i>	<i>The essence of the strategy</i>
The strategy of the leading position on costs	The organization seeks to minimize the costs of production and distribution of hotel services to lower prices and expand its market share. The achievement of price leadership occurs when the hotel controls a significant share of the market, or has a unique service technology (Guchait, Lee, Wang, & Abbott, 2015). This strategy means an ability of the hotel to develop, produce and sell similar hotel services more effectively than its competitors. According to this strategy managers pay attention to cost control rather than to services, their quality and other parameters. The leadership of costs is an aggressive strategy aimed at achieving production efficiency of hotel services and strict control of any expenses
Differentiation strategy	The hotel aims to gain the leadership in the level of the services offered. The strategy focuses on providing unique services, which are in fact modifications of the standard ones. These services are designed for customers who are not satisfied with the standard hotel services and are willing to pay for the uniqueness (Ladkin & Buhalis, 2016).
The strategy of focusing or concentrating	Restricting the scope of hotel activities and focusing on one aspect or a small target group of consumers (So, King, Sparks, & Wang, 2014). This strategy provides a competitive advantage in a separate market segment. The strategy is based on the special orientation of the organization and the level of its staff qualification, which helps to secure the market niche. To implement this strategy marketing is important, which identifies the urgent market issues and possible ways of solving them. Therefore, the hotel is required to respond rapidly to changes in the external environment
Early market entry strategy	The enterprise of hospitality industry is the first one to offer a unique service in the market. Employment of this strategy ensures sustainability of competitive advantage, secures significant profits, and rapid growth of the organization (Cole, 2016). The features of this competitive advantage are: various innovations, high risks, difficulties in maintaining this advantage, difficulty in planning due to a lack of experience.
Integration Strategy	The competitive advantages are the result of the connection between several hotels with the aim to share experience and resources, co-develop marketing data, etc. This strategy allows to increase profits, compared to the practice of separate management. The strategy is the basis for the creation of various alliances, associations, unions, not only at national but also at international level (Jones, Hillier, & Comfort, 2016). Using integration strategy is effective in the following situations: when there is a possibility to standardize a hotel product or service, which allows to economize on the scale or use marketing programs more effectively; the production costs of the hotel product and services are reduced, while the efficiency increases due to tourist services in various hotels.

There are several directions to acquire competitive advantages. These basic strategies have universal applicability. However, the choice of a particular strategy by organization depends on its strategic potential. The internal environment of the hotel largely determines the feasibility of the chosen strategy. Many hotels only find it meaningful to act against competitors. However, this gives effects that are very limited in time, territory and scale. This must be taken into account while designing a competitiveness management system of the hotel (Bezel, 2008).

Based on the analysis of forming factors of competitive advantages, O. Kapustina offers a three-tier competitiveness model of the hotel (Figure 1) (Kapustina, 2012).

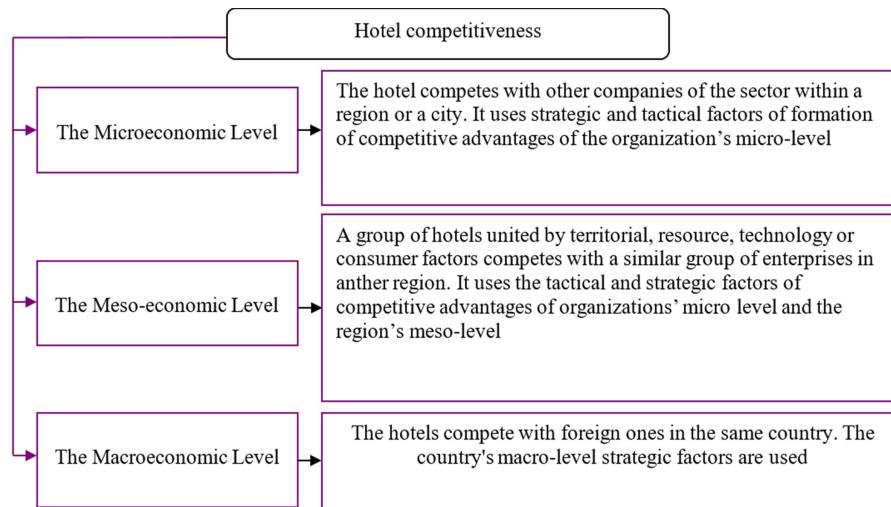


Figure 1: Three-tier competitiveness model of the hotel

This approach demonstrates the need for unification of different hotels to ensure they stay competitive. In this case, hotels are not competitors, but strategic partners.

In the proposed hierarchical model, the factors of higher levels influence the lower level ones, just as the lower-level aims are the means to achieve the aims of a higher level, which follows from the system analysis. In other words, at first the potential customer chooses the country (compares its competitive advantages with the advantages of other countries), then the region (compares to other regions), the city, and, finally, the specific hotel.

An important conclusion is that the hotel can invest a lot into the improvement of its competitive position at the micro-level (in comparison with other hotels in the city), but if at the same time its competitiveness in the region or country level remains low, the desired result will not be achieved.

A hotel should act adequately to the state of the environment. The important aspect is the fact that a competitive advantage is relative, it is determined in comparison with the competitors. In this regard, it should be borne in mind who the competitors of the hotel are. That helps to develop appropriate strategies of competitiveness management and development.

### 3. METHODOLOGICAL APPROACHES TO ESTIMATING THE COMPETITIVENESS OF A HOTEL

There are various methods to estimate the competitiveness of enterprises. Let us consider the most widely used ones.



Professor Michael Porter of the Harvard Business School defines competitiveness as the company's ability to operate successfully in a particular market (region of sales) at a specific period through the production and sale of competitive products and services.

Porter singles out five factors that, in his opinion, have the greatest impact on competitiveness:

- rivalry among the existing competitors;
- the threats posed by new entrants to the market;
- the bargaining power of suppliers;
- the bargaining power of buyers;
- threats of substitute products or services.

In his research, Michael Porter showed that there are three basic business strategies, following which, the enterprises try to achieve competitive advantages:

1. Cost leadership strategy – production with the lowest cost in the industry or business.
2. Differentiation strategy, attempting to meet the needs and demands of consumers, which in turn implies a higher price level.
3. Focus strategy – focusing on target market segments to meet the needs and demands of well-defined range of consumers, through either low-price policy or high quality.

According to M. Porter, to achieve competitive advantage, an enterprise should solve for at least three problems at the same time:

- Improving the quality and consumer properties of the product;
- Reducing costs and preserving the maximum acceptable level of prices;

Orientation of products on target segments of the market, where the competition is weakened due to high heterogeneity of the market (Porter, 2010).

The analysis of the strengths, weaknesses, emerging opportunities and threats comprises SWOT-analysis. This technique gives a clear understanding of the status of the enterprise's strengths and weaknesses, at the same time showing its real opportunities or threats to its development.

The "4Ps" method of estimating the competitiveness of enterprises, in contrast to the one previously discussed, allows estimating along both individual factors, and all factors as a whole. This method is based on a comparative analysis of the company and its competitors along the following factors: product, price, place, and promotion. All competitiveness factors are given a quantitative assessment, for example, from 1 to 5 points.

The method of functional mapping allows to estimate competitiveness in approximately the same way. This method is based on the combination of the "4Ps" with market segmentation. The experts estimate specific factors of competitiveness, taking into account their importance for consumers in key market segments. The main advantage of this method is that it allows to:

Firstly, to clarify which of the segments can be selected as target;

Secondly, to set priorities while developing a plan to improve the enterprise competitiveness;

Thirdly, to determine what needs improvement in the parameters of offered goods in order to adapt them better to the consumers' requirements in this segment of the market (Medlik, 2007).

Later, Lambin offered his concepts and definitions of competitive advantage and firm competitiveness earlier. According to Lambin, the competitive advantages are those characteristics and properties of the goods or services that give the company a certain advantage over its direct competitors. These characteristics (attributes) can be very different, and refer both to the product (basic service) and to additional services that accompany the basic service (Dmitrieva, 2007).

Depending on various factors, Lambin grouped the company's competitive advantages into two categories – internal and external.

A competitive advantage is external, if it is based on the distinctive qualities of the goods, which are of value to the customer by either reducing costs or improving efficiency.

The competitive advantage is internal if it is based on the supremacy of the company in terms of the production costs, product or company management that creates value for the manufacturer, allowing to be more cost-effective.

Lambin believes that one of the most important issues in the analysis of the company's competitiveness is the reaction of competitors. The author proposes to conduct an analysis along the following three factors: price, promotion, quality (or reducing price, increasing advertising pressure and improving quality) (Dmitrieva, 2007; Panferov, 2009).

It is also possible to estimate the competitiveness of the company, using the following methods:

1. The comparative advantages;
2. Equilibrium theory of the firm and the industry (in terms of production factors);
3. The market positions of the company;
4. The method of "profiles" and product quality;
5. Matrix method.

It is impossible to measure comparative advantages directly.

Estimating manufacturer's competitiveness by the quality of its products is used in the "profiles method". This method identifies different criteria of meeting the needs of consumers in relation to some product, sets their hierarchy and their relative importance within the range of characteristics that a consumer is able to notice and estimate, and makes a comparison between technological and economic parameters of the product and other competing products. This procedure can be conducted in three stages.

The first stage is to identify the market (or markets) for the product and market requirements. For each market, it is found how its requirements are met by the existing competing products, compared with an ideal product that the consumer would like to have.

At the next stage, the following question is solved: what should the product be like to ensure maximum profitability?



The final stage implies an analysis of the work of company's sales department and the entire distribution network in comparison with competition. The purpose of this stage is to determine duration (time) of sales, and to find ways to reduce it (Mullagaliev, 2010).

The best option to improve competitiveness in the hospitality industry is to offer new services, because the hotel that is the first to operate in the market has no competitors, creates demand, and can determine the service range and prices.

To improve the competitiveness of hotel is possible by providing new additional services with simultaneous reconstruction and modernization of existing hotels. A hotel offers a wide variety of services, whose production invokes high constant material costs with substantially lower variable cost. The study of the entire hotel industry, market status and trends are vital for improving the competitiveness.

#### 4. CONCLUSION

The process of formation of competitive advantages is very time-consuming and requires the hotel's continuing effort to improve its activity, because competitors can easily copy most of the resources that create competitive advantage.

Eventually the sources of competitive advantages based on innovative technologies will become available to competitors, so the implementation time for innovations should be shorter than the time of their replication by competitors.

The sources of competitive advantages based on hotel's high reputation, loyal and professional staff, effective marketing, and efficient management systems are difficult to copy, since their replication is time-consuming and costly. This shows their high importance in estimating the hotels competitiveness.

The practical significance of this study lies in the possibility of using the developed course of action in any hotel not offering this service.

#### References

- Babanchikova, O. (2010). Management of Competitiveness of the Hotel Enterprise: Theory and Practice. *Service in Russia And Abroad*, 3, 5-10.
- Bezel, E. (2008). *Management Business Strategy Competitiveness of High Quality Hotel Companies: Dissertation of Candidate of Economic Sciences* (1st ed., p. 174). Moscow: MAB.
- Brymer, R. (2008). *Basis of Management in the Hospitality Industry* (1st ed., p. 467). Moscow: Aspekt Press.
- Cole, G. (2016). Why firms should develop women professionals: organizational support, growth and retention. *Human Resource Management International Digest*, 24(6), 33-36. <http://dx.doi.org/10.1108/hrmid-06-2016-0084>
- Dmitrieva, A. (2007). Competitiveness of International Companies. *Marketing*, 3, 64.
- Guchait, P., Lee, C., Wang, C., & Abbott, J. (2015). Impact of error management practices on service recovery performance and helping behaviors in the hospitality industry: The mediating effects of psychological safety and learning behaviors. *Journal of Human Resources in Hospitality & Tourism*, 15(1), 1-28. <http://dx.doi.org/10.1080/15332845.2015.1008395>
- Jones, P., Hillier, D., & Comfort, D. (2016). Sustainability in the hospitality industry. *International Journal of Contemporary Hospitality Management*, 28(1), 36-67. <http://dx.doi.org/10.1108/ijchm-11-2014-0572>

- Kapustina, O. (2012). Formation of a Strategy to Achieve Competitive Advantages in the Hospitality Industry. *Economy and Management*, 3, 36-39.
- Karlof, B. (2009). *Business Strategy* (1st ed., p. 239). Moscow: Economics.
- Kobersy, I., Khasiyeva, L., Yakhina, V., Ignatyeva, O., Goloshchapova, L., Shkurkin, D., & Sadykova, L. (2016). Approaches to implementation of motivation as the complex conditions of increase of efficiency of social and labor relations: International experience. *International Review of Management and Marketing*, 6(1), 208-217.
- Kosvintseva, E. (2009). *A Provision of the Competitiveness of the Hotel Enterprise Industrial Centre: Abstract of the Dissertation of Candidate of Economic Sciences* (1st ed., p. 23). Moscow: Lomonosov Moscow State University.
- Kvartalnov, V. (2009). *Theory and Practice of Tourism: A Textbook for Universities* (1st ed., p. 671). Moscow: Finance and Statistics.
- Ladkin, A. & Buhalis, D. (2016). Online and social media recruitment. *International Journal of Contemporary Hospitality Management*, 28(2), 327-345. <http://dx.doi.org/10.1108/ijchm-05-2014-0218>
- Medlik, S. (2007). *Hospitality: A textbook for university students* (1st ed., p. 239). Moscow: Unity-Dana.
- Mullagaliev, A. (2010). Features of Competition in the Market of Hotel Services. *Russian Entrepreneurship*, 10(2), 140-145.
- Panferov, N. (2009). *Management of Competitiveness of Russian Industry Hospitality Organizations in the Contemporary Economy: Abstract of the Dissertation of Candidate of Economic Sciences* (1st ed., p. 26). Moscow: State University of Management.
- Porter, M. (2010). *Competitive Advantage. How Achieve High Results and Ensure Its Sustainability* (1st ed., p. 720). Moscow: Alpina.
- Shkurkin, D., Sogacheva, O., Logvencheva, E., & Khramova, M. (2016). Modernization of the sphere of tourist and hospitality industry of the south of russia as a growth factor of socio-economic stability of the region. *International Journal of Economics and Financial Issues*, 6(1S), 101-106.
- So, K., King, C., Sparks, B., & Wang, Y. (2014). The Role of Customer Engagement in Building Consumer Loyalty to Tourism Brands. *Journal Of Travel Research*, 55(1), 64-78. <http://dx.doi.org/10.1177/0047287514541008>
- Volkov, Y. (2010). *An Introduction to the Hospitality and Tourism* (2nd ed., p. 352). Rostov-on-Don: Phoenix.